



Australian Bureau of Statistics

1350.0 - Australian Economic Indicators, Jul 2000

ARCHIVED ISSUE Released at 11:30 AM (CANBERRA TIME) 30/06/2000

Special Article - The impact of the New Tax System on ABS statistics

(This article was published in Australian Economic Indicators (ABS Catalogue No. 1350.0), July 2000.

Introduction

The New Tax System (TNTS) will have substantial impacts on Australian businesses and the Australian population. As a consequence, the Australian Bureau of Statistics (ABS) economic statistics will be affected and, for many of these statistics, this impact will be significant. Although some impacts will be immediate, others will take some time. The impacts on economic statistics will include price and income changes, which in turn impact on purchasing patterns, and some changes to ABS statistical infrastructure. This article summarises the major impacts of TNTS on ABS statistics and notes the ABS's conceptual treatment of the goods and services tax (GST), including its classification in ABS statistics.

A key element of TNTS was the introduction of a GST on 1 July 2000. The GST is a tax of 10% on the consumption of most goods and services in Australia, including those that are imported, but it does not apply to exports or to services consumed outside Australia. A range of goods and services will not have GST applied (eg health services, basic food) and the finance industry will be input taxed and so GST will not apply to the services that industry produces.

For greater detail on the impacts of TNTS on ABS statistics, readers should obtain copies of two Information Papers, **ABS Statistics and The New Tax System** (Cat. no. 1358.0), and **Price Indexes and The New Tax System** (Cat. no. 6425.0), which are available on this site or from ABS bookshops.

The New Tax System

The main aspects of TNTS with impacts on ABS statistics centre around the introduction of a GST and the removal of the former wholesale sales tax (WST) and some State and territory taxes. The WST on some goods was reduced from 32% to 22% from 29 July 1999, and was removed from 1 July 2000. Unlike the WST, which was only levied on goods, the GST is also levied on services. The Government's tax reform plan identified ten types of indirect tax - one Commonwealth tax and nine State taxes. Some of these are subject to review, while others are being removed. A range of other changes are being made to indirect taxes, including:

- introduction of a luxury car tax (LCT);
- reduction of excise rates on petrol and diesel fuel;
- introduction of a new fuel grant scheme;
- an extension to the Diesel Fuel Rebate Scheme; and
- increase to the excise duty on alcoholic beverages other than wine and the creation of a wine equalisation tax (WET).

To compensate households for the price effects of indirect tax reform, a range of measures came into effect on 1 July 2000. These measures include:

- personal income tax cuts;
- payment of the Aged Persons Savings Bonus and Self-funded Retirees Supplementary Bonus to eligible persons;
- an increase in social security and veterans pensions and allowances (by 4%), student income support payments and adjustment of income tests;
- an increase in the maximum rate of rent assistance by 7%;
- extension of the Family Tax Initiative, easing of the income test for family allowances, and increases in the maximum level of assistance for child care; and
- introduction of the First Home Owners Scheme (a grant of \$7,000 to first home buyers building or buying a new or established dwelling).

These changes will affect the level of household disposable income. A number of ABS series will show direct and indirect effects of these compensation arrangements.

Other Tax Changes

Pay As You Earn (PAYE), Prescribed Payments System (PPS), Reportable Payments System (RPS), provisional tax and company instalments were replaced by a comprehensive Pay As You Go (PAYG) process, effective from 1 July 2000. Under PAYG, the timing and amount of income tax instalments are based on the taxpayer's current trading or income conditions.

Legislation arising from the Review of Business Taxation (the 'Ralph review') take effect from various dates. While some changes were effected immediately upon passage of legislation in 1999, most changes take effect beginning either 1 July 2000 or 1 July 2001. It is possible that the legal structure of many businesses will be altered in response to this legislation, with implications for the manner in which businesses report to the ABS.

How the ABS will treat the GST

The ABS approach to the classification of indirect taxes follows the recommendations of the 1993 edition of the international statistical standard System of National Accounts (SNA93). SNA93 uses the term 'taxes on production and imports' to describe indirect taxes. 'Taxes on production and imports' can be further broken down into 'taxes on products' and 'other taxes on production'. The GST is a 'tax on products'.

The ABS will use the net system to record the GST in the national accounts, in line with the SNA93's recommendations. The ABS considers the net system to be the most appropriate from both a practical and a conceptual perspective. Under the net system, the GST is recorded as being payable by purchasers, not sellers, and then only by those purchasers who are not able to deduct it as an input credit. Almost all the GST is therefore recorded as being paid on final uses - mainly on household consumption. Small amounts of GST may, however, be paid by the business in respect of certain kinds of purchases on which the GST may not be deductible. Input tax credits are not available to the finance industry.

Based on the relevant guidelines of the International Monetary Fund's A Manual on Government Finance Statistics, the GST will be classified as a Commonwealth tax as the Commonwealth has the ultimate role in the determination and distribution of GST revenue. For more details, see the

A description of how TNTS will impact on the national accounts was contained in a special article published in the March quarter 2000 edition of **Australian National Accounts: National Income, Expenditure and Product** (Cat. no. 5206.0), released on 14 June 2000.

Summary of Statistical Impacts

Many of the statistical series produced by the ABS will be affected in some way by the introduction of TNTS, with some impacts being immediate, some transitional and some occurring in the long term. There will be both direct and indirect impacts. (Some impacts will occur as a result of changes to the statistical infrastructure.)

Direct impacts

Direct impacts will occur, for example, on the Consumer Price Index (CPI) as prices change. The CPI will continue to measure final transaction prices paid by households for goods and services and it will reflect the net effect on such prices of all tax changes included in TNTS. Significant price change, as measured in the CPI, is expected to occur in respect of the September quarter 2000. In subsequent quarters, increases in the CPI will be smaller than would otherwise have been the case, as the removal of WST and lower diesel excise reduce embedded production and transportation costs and hence are a downward influence on retail prices.

Further examples of where direct impacts will affect economic statistics include:

- changes to the reported value of sales, capital expenditure, inventories and various items of business expense, occurring as a result of removing WST;
- changes to taxes on production; and
- changes to income taxes relating to individuals and enterprises.

Indirect impacts

Indirect impacts of TNTS as a result of changes in economic behaviour of businesses and households will also occur and will affect the observed levels and movements of a broad range of statistical series. For example, changes in relative prices of various goods and services will affect purchasing patterns.

Impacts on ABS series

TNTS may also affect seasonally adjusted and trend statistical series. Both monthly and quarterly statistical series are likely to be affected by irregular factors, particularly during the transition period to TNTS. For some series, there may also be breaks in the trend series (which generally will not be able to be estimated in the short term). Users of time series data should exercise caution in the interpretation of these series during the transition period, particularly in current price terms. The chain volume estimates will not be affected by direct impacts of TNTS, but may be affected by indirect impacts associated with any changes in expenditure patterns.

Users should also note that the movements in time series will also be affected by irregular factors

associated with the Olympic Games during these periods.

The following Table briefly outlines the expected changes to the primary range of economic statistics.

Table 1. Summary of Effects of The New Tax System on Selected Economic Statistics

ABS Series

Prices

Consumer Price Index

Effect of The New Tax System

Refer to ABS Information Paper **Price Indexes and The New Tax System** (Cat. No. 6425.0)

The CPI will continue to measure final transaction prices paid by households for goods and services. The CPI will thus reflect the net effect on those prices of all tax changes included in TNTS. The House Price Indexes and Average Retail Prices series will also be affected.

Producer Price Indexes

Most Producer Price Indexes (PPIs) will not be affected directly by TNTS. However, for the Price Index of Materials Used in House Building and Price Index of Materials Used in Building Other Than House Building, a number of items included WST at the applicable rates which were abolished on 1 July 2000, resulting in a downward influence on those prices. The September quarter 2000 publications of these indexes will provide information which will enable users to assess the direct impacts of the abolition of the WST on the published indexes. Changes in the diesel fuel rebate scheme are expected to have a downward influence on the Price Index of Materials Used in Coal Mining.

National Accounts

Various national accounts aggregates will be affected in different ways. Several commonly used ratios derived from the national accounts will also be affected by the introduction of TNTS. A special article was published in the March quarter 2000 edition of **Australian National Accounts: National Income, Expenditure and Product** (Cat. no. 5206.0), released on 14 June 2000.

Current Price Estimates

- (1) From 1 July 2000, household final consumption expenditure will be estimated with GST generally included in prices.
- (2) Government final consumption will generally be recorded exclusive of GST.
- (3) The value of inventories will change since WST is currently included in the value but future valuations will reflect the removal of WST (and will exclude GST). Estimates of changes in the values of inventories will be consequentially affected.
- (4) Estimates for most of the components of gross fixed capital formation will reflect the removal of WST and the rebateable nature of GST for most businesses.

Chain Volume Estimates

(5) There will also be indirect effects from TNTS due to changes in economic behaviour. No direct impact is expected on volume estimates. However, changes in volumes due to changes in economic behaviour will be reflected in the estimates.

Financial Accounts

There are no direct effects but the volume of trading of marketable securities is likely to be affected by the removal of the financial institutions duties (FID), debits tax, stamp duty and changes to capital gains tax. From 1 July 2001 FID will be removed and from 1 July 2005 debits tax will be phased out.

Public Finance

The GST will be classified as a Commonwealth tax as the Commonwealth has the ultimate role in the determination and distribution of GST revenue. This will result in an increase in the level of Commonwealth taxation revenues and grants distributed to the States and Territories. The grants revenue of States and Territories will also increase. For details see the ABS Information Paper **Accruals-based Government Finance Statistics** (Cat. No. 5517.0) released on 13 March 2000.

Annual and Periodic Industry Surveys (Agriculture, Mining, Manufacturing, Utilities and Service Industries)

(1) Income and expenses will be affected by TNTS, as a result of WST being abolished and GST generally being excluded from the valuation of these aggregates.

(2) There will be a direct impact on the value of both inventories and capital expenditure and, therefore, on the assets of businesses, due to the change in valuation basis (as the WST is abolished and the GST is generally excluded from valuation).

Quarterly Surveys of Businesses (Company Profits, Sales, Inventories, Capital Expenditure and Employment & Earnings)

Measures of income and expenses will both be affected because of the WST being abolished. Inventories will be valued excluding WST and net of GST from 1 July 2000. There will also be a direct impact on the price of many capital purchases since WST will be abolished and GST will generally be excluded from valuation. The acquisition of IT systems to support record keeping and reporting requirements under TNTS may affect capital expenditure.

Retail

(1) Business transactions collected for the monthly Retail Trade series will include the GST in the value of turnover. The removal of the WST will also affect the value of turnover. Turnover in current price terms on the same volume of sales will generally be higher than if the changes in tax arrangements had not taken place.

(2) Decisions may be made to bring forward or postpone purchases, as a result of expected

changes in prices. Increases in household disposable income through TNTS compensation measures may also affect consumer purchasing patterns, and have a consequential impact on the retail series, in both current price and chain volume terms.

International Trade and Balance of Payments

(1) The only significant direct effect of TNTS on these series will be the impact of price changes on travel credits, that is, on the consumption within Australia by non-resident visitors (for Balance of Payments series).

(2) There will also be indirect impacts in that the changes in prices will affect demand for imports.

Construction and Housing Finance

(1) With changes to prices of materials and services used in building, some changes in levels and timing of demand for construction (reflected in building approvals) may already have occurred, and may continue to occur.

(2) The Building Activity and Engineering Construction statistics published by the ABS include 'value of work done' and 'value of work remaining to be done'. In addition, 'value of building approvals' is an important indicator published by the ABS. The ABS will publish residential approvals and activity statistics on a GST-inclusive basis; non residential approvals on a GST-exclusive basis; and non residential and engineering construction statistics on a GST exclusive basis.

(3) As house prices are expected to rise with the application of the GST, this is likely to result in larger loans being incurred, as measured in the Housing Finance for Owner Occupation series. Offsetting this for first home buyers will be a \$7,000 subsidy.

Tourism

(1) In the quarterly Tourist Accommodation Survey, the cost of any Bed Tax will be removed from statistics of takings from accommodation following the abolition of this tax on 1 July 2000. However, the cost of GST will be included in takings from accommodation.

(2) The expected increase in household disposable income under TNTS, and the changing relativities of prices for goods and services, may alter demand for tourist accommodation and would be reflected in the room nights and takings series.

Transport

(1) TNTS and price implications are likely to have some effect on consumer demand for motor vehicles and therefore on the New Motor Vehicle Registrations series, during 1999–2000

and 2000–2001.

(2) Estimates from the Surveys of Motor Vehicle Use and Freight Movements may be affected by changes to the Diesel Fuel Rebate Scheme, the introduction of the Diesel and Alternate Fuels Grants Scheme, and TNTS as a result of the changing behaviour that may result from price changes.

Science and Technology

The ABS conducts a range of surveys in this field including surveys of Research and Development Expenditure, Use of Information Technology by households, business and government, and Innovation. The value of some items included in these surveys will be affected by changes occurring as a result of the WST being abolished.

Household Income and Expenditure

(1) There will be direct effects on expenditures on various goods and services in the next Household Expenditure Survey (2003-2004), compared with expenditures in the previous survey, reflecting changes to prices and disposable incomes as a result of TNTS. Additionally, changes in relative prices will influence consumer spending patterns. Neither the most recent nor the next Household Expenditure Survey is expected to be influenced by transitory effects associated with TNTS and hence they will provide a good basis for analysing consumer spending before and after the introduction of TNTS.

(2) The next Survey of Income and Housing Costs will be conducted in respect of 2000–2001. Estimates from this collection will be affected by changes to pensions, benefits and income tax. Changes associated with indirect taxes on house purchases and the first home owners scheme may affect housing costs reported in this collection.

Further Information

If you would like more information on the impacts of TNTS and its implications for ABS statistics, please contact Peter Comisari, on (02) 6252 7218 or email peter.comisari@abs.gov.au

For further information on more specific impacts on Price Indexes please contact the following:

Producer Price Indexes (PPIs), David Collins on (02) 6252 6248 or email david.collins@abs.gov.au

Consumer Price Index (CPI), Keith Woolford on (02) 6252 6673 or email keith.woolford@abs.gov.au

Further information about the impact on particular data series will be included in the specific survey publications as they are released. Contact officers for those series can provide additional information.

All publications and additional information in relation to Tax Reform and ABS statistics, may be found on the ABS web site at <https://www.abs.gov.au>

This page last updated 8 December 2006

© Commonwealth of Australia

All data and other material produced by the Australian Bureau of Statistics (ABS) constitutes Commonwealth copyright administered by the ABS. The ABS reserves the right to set out the terms and conditions for the use of such material. Unless otherwise noted, all material on this website – except the ABS logo, the Commonwealth Coat of Arms, and any material protected by a trade mark – is licensed under a Creative Commons Attribution 2.5 Australia licence